



## TAXREP 5/10

### REVISED DISCUSSION DRAFT OF A NEW ARTICLE 7 OF THE OECD MODEL TAX CONVENTION

*Memorandum submitted on 22 January 2010 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to a consultation document published in November 2009 by OECD*

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# **REVISED DISCUSSION DRAFT OF A NEW ARTICLE 7 OF THE OECD MODEL TAX CONVENTION**

## **INTRODUCTION**

1. We welcome the opportunity to comment on the Consultation Document published in October 2009 by OECD at <http://www.oecd.org/dataoecd/30/52/44104593.pdf>
2. Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Annex A. Our Ten Tenets for a Better Tax System which we use as a benchmark are summarised in Annex B.

## **OUR COMMENTS**

3. This is a very important issue for the business community, advisers and revenue authorities and we commend the work that OECD has done in this area in previous consultations and the public consultation meeting of 17 September 2009 which our representatives attended.
4. We appreciate the care and attention with which OECD has listened to the various representations that have been made and we believe the latest discussion draft is more even handed and coherent than the earlier versions.
5. We have one major concern which is in relation to the documentation requirements spelled out at paragraph 24 of the discussion draft. It is clearly stated that the intention is not to create more burdensome documentation requirements in connection with dealings between the permanent establishment and other parts of the enterprise than for dealings between associated enterprises. But it is then stated that the preparation of documentation is encouraged 'as it may reduce substantially the potential for controversies'.
6. We are concerned that there is a lack of clear guidance in this part of the discussion draft and that could actually result in more extensive documentation requirements than hitherto.

iky 22 January 2010

**ICAEW AND THE TAX FACULTY: WHO WE ARE**

1. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
2. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
3. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter TAXline to more than 10,000 members of the ICAEW who pay an additional subscription.
4. To find out more about the Tax Faculty and ICAEW including how to become a member, please call us on 020 7920 8646 or email us at [taxfac@icaew.com](mailto:taxfac@icaew.com) or write to us at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

## THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**; see [www.icaew.co.uk/index.cfm?route=128518](http://www.icaew.co.uk/index.cfm?route=128518).